

(b) CONTRIBUTION AND INDEMNIFICATION BETWEEN THE BORROWERS. To the extent that any Borrower shall, as a result of the operation of SECTION 2.15, pay any Obligation of any other Borrower under the Loan Documents (such payment being referred to as an "ACCOMMODATION PAYMENT"), then such Borrower shall be entitled to contribution and indemnification from, and be reimbursed by such other Borrower, as set forth in the Contribution Agreement. Each Borrower agrees that any extension, forbearance or amendment, or any acceptance, release or substitution of security, or any impairment or suspension of Lender's remedies or rights against any other Borrower or the cessation of the liability of any other Borrower for any reason other than full and indefeasible satisfaction of all Obligations shall not in any way affect the liability of such Borrower. Each Borrower has provided itself of the means of remaining informed of the financial condition of each other Borrower, and waives any right to require any Lender or any of the Agents to keep it informed of the financial condition of any other Borrower. The provisions of this section shall, to the extent expressly inconsistent with any provision in any Loan Document, supersede such inconsistent provision.

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ARTICLE III REPRESENTATIONS AND WARRANTIES

Each Borrower represents and warrants to the Agent, the Collateral Agent and the Lenders that:

SECTION 3.01. ORGANIZATION; POWERS. (a) Such Borrower (i) is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and (ii) is qualified to do business in the jurisdiction in which its principal place of business is located and in every other jurisdiction where such qualification is necessary;

(b) such Borrower has the power and authority to own its properties, to carry on its business as now conducted; and

(c) such Borrower has the power and authority to execute and deliver and perform this Agreement and the other Loan Documents to which it is a party, to borrow hereunder, and will have the power to execute and deliver any Mortgages and Collateral Assignments of Leases or other instruments to be delivered by it subsequent to the date hereof.

SECTION 3.02. CORPORATE AUTHORIZATION. The execution, delivery and performance of this Agreement and the other Loan Documents to which such Borrower is a party, and the Loans hereunder:

(a) have been duly authorized by such Borrower's Board of Directors or managers and, if necessary, such Borrower's stockholders or members;

(b) (1) do not violate (i) any existing provision of law applicable to such Borrower and not immaterial to its business, (ii) such Borrower's Certificate or Articles of Incorporation or other organizational documents, as the case may be, or (iii) any applicable order of any court or other governmental agency, and (2) do not conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any indenture, agreement for borrowed money, bond, note or other similar instrument or any other material agreement to which such Borrower is a party or by which such Borrower or any of such Borrower's property is bound;

(c) do not result in the creation or imposition of any Lien of any nature whatsoever upon any property or assets of such Borrower other than the Liens granted pursuant to this Loan Agreement or the other Loan Documents;

(d) constitute legal, valid and binding obligations of such Borrower, enforceable against such Borrower in accordance with their respective terms; and

(e) do not, as of the date of execution hereof, require any

governmental consent, filing, registration or approval except as set forth on SCHEDULE 3.02.

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SECTION 3.03. FINANCIAL STATEMENTS. The Borrowers have furnished to the Agent and the Lenders the audited consolidated financial statements of KMC Holdings dated as of December 31, 1998, and the unaudited consolidated financial statements for the fiscal quarter ended September 30, 1999, which statements are attached hereto as EXHIBIT I (collectively, the "Financials"). The Financials have been prepared in accordance with GAAP applied on a basis consistent with that of preceding periods and are complete and correct in all material respects. As of the date of the Financials, (a) the Financials fairly represent KMC Holdings' financial position and results of operations; and (b) there are no omissions from the Financials or any other facts or circumstances not reflected in the Financials which are or may be material according to GAAP.

SECTION 3.04. NO MATERIAL ADVERSE CHANGE. There has been no material adverse change in the condition (financial or otherwise), operations or properties of such Borrower since the date of the Financials.

SECTION 3.05. LITIGATION. Except as set forth on SCHEDULE 3.05, there are no actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of such Borrower, threatened, against or affecting such Borrower or any property or rights of such Borrower as to which there is a reasonable possibility of an adverse determination and which, if adversely determined, would individually or in the aggregate materially impair the right of any Borrower to carry on business substantially as now being conducted or as presently contemplated or would result in any Material Adverse Effect.

SECTION 3.06. TAX RETURNS. Such Borrower has filed or caused to be filed all Federal, state and local tax returns which are required to be filed and has paid or caused to be paid all taxes as shown on such returns or on any assessment received by it to the extent that such taxes have become due, except such taxes the amount, applicability or validity of which are being contested in good faith by appropriate proceedings and with respect to which such Borrower shall have set aside on its books adequate reserves with respect to such taxes as are required by GAAP.

SECTION 3.07. NO DEFAULTS. Such Borrower is not in default (i) with respect to any judgment, writ, injunction, decree, rule or regulation of any Governmental Authority which is likely to have a Material Adverse Effect, or (ii) in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any material agreement or instrument to which such Borrower is a party or by which any of its assets are bound, which is likely to have a Material Adverse Effect.

SECTION 3.08. PROPERTIES. Such Borrower has good and marketable title to all its material properties and assets and all Collateral of such Borrower is free and clear of all Liens of any nature whatsoever, except Permitted Liens.

SECTION 3.09. LICENSES, MATERIAL AGREEMENTS, INTELLECTUAL PROPERTY. (a) Such Borrower has obtained all material Governmental Approvals, which Governmental Approvals are necessary or appropriate for the construction and operation of the Systems as are presently operating, as contemplated in the Milestone Plan, other than immaterial municipal business permits. Such Governmental Approvals are correctly listed on SCHEDULE 3.09(a) and constitute the only Governmental Approvals required in connection with the Systems as are presently operating. All Governmental Approvals of such Borrower are in full force and effect, are duly issued in the name of, or validly assigned to, such Borrower and such Borrower has the power and authority to operate thereunder.

(b) SCHEDULE 3.09(b) accurately and completely lists all material agreements to which such Borrower is a party, including, without limitation, all purchase agreements, construction contracts, right of way or right of occupancy agreements, lease agreements, consulting, employment, management and related

agreements. All of the foregoing agreements are valid, subsisting and in full force and effect and none of such Borrower, or, to the best of such Borrower's knowledge and belief, any other parties, are in material default thereunder. Such Borrower has given true and complete copies of all such agreements to the Agent and the Lenders.

(c) Such Borrower owns or possesses all the patents, trademarks, service marks, trade names, copyrights and licenses, and all rights with respect to the foregoing (the "INTELLECTUAL PROPERTY"), necessary for the conduct of its business as presently conducted without any known conflict with the rights of others. SCHEDULE 3.09(c) accurately and completely lists all Intellectual Property owned or possessed by or licensed to such Borrower. Such Borrower has entered into Intellectual Property Documents with respect to its Intellectual Property, as requested by the Collateral Agent.

SECTION 3.10. COMPLIANCE WITH LAWS. Except as disclosed on SCHEDULE 3.10, the operations of such Borrower comply in all material respects with all applicable federal, state or local laws and regulations, including Environmental Laws. Except as disclosed on SCHEDULE 3.10, to such Borrower's knowledge, none of the operations of such Borrower is subject to any judicial or administrative proceeding alleging the violation of any Environmental Laws. Except as disclosed on SCHEDULE 3.10, such Borrower neither knows nor reasonably should know that any of the operations of such Borrower is the subject of federal or state investigation evaluating whether any Remedial Action is needed to respond to a Release. Except as disclosed on SCHEDULE 3.10, such Borrower has not filed any notice under any federal or state law indicating past or present treatment, storage or disposal of a hazardous waste or reporting a Release. Except as disclosed on SCHEDULE 3.10, such Borrower has no contingent liability of which such Borrower has knowledge or reasonably should have knowledge in connection with any Release.

SECTION 3.11. ERISA. None of such Borrower or any ERISA Affiliate of such Borrower maintains or contributes to any Plan other than a Plan listed on SCHEDULE 3.11 hereto. Each Plan which is intended to be qualified under Section 401(a) of the IRC has been determined by the IRS to be so qualified, and each trust related to any such Plan has been determined to be exempt from federal income tax under Section 501(a) of the IRC. Except as disclosed on SCHEDULE 3.11, none of such Borrower or any ERISA Affiliate maintains or contributes to any employee welfare benefit plan within the meaning of Section 3(1) of ERISA which provides benefits to employees after termination of employment other than as required by Section 601 of ERISA. None of such Borrower or any ERISA Affiliate has breached any of the responsibilities, obligations or duties imposed on it by ERISA or regulations promulgated thereunder with respect to any

Plan which breach could result in a Material Adverse Effect. No Plan has incurred any accumulated funding deficiency (as defined in Section 302(a)(2) of ERISA and Section 412(a) of the IRC), whether waived or not waived. None of such Borrower or any ERISA Affiliate nor any fiduciary of any Plan which is not a Multiemployer Plan (i) has engaged in a nonexempt "prohibited transaction" described in Section 406 of ERISA or Section 4975 of the IRC or (ii) has taken or failed to take any action which would constitute or result in a Termination Event. None of such Borrower or any ERISA Affiliate has incurred any liability to the PBGC which remains outstanding and which could result in a Material Adverse Effect, other than the payment of premiums, and there are no premium payments which have become due which are unpaid. Schedule B to the most recent annual report filed with the IRS with respect to each Plan is complete and accurate. Since the date of each such Schedule B, there has been no adverse change in the funding status or financial condition of the Plan relating to such Schedule B. None of such Borrower or any ERISA Affiliate has (i) failed to make a required contribution or payment to a Multiemployer Plan or (ii) made a complete or partial withdrawal under Sections 4203 or 4205 of ERISA from a Multiemployer Plan. None of such Borrower or any ERISA Affiliate has failed to make a required installment or any other required payment under Section 412 of the IRC on or before the due date for such installment or other payment. None of

such Borrower or any ERISA Affiliate is required to provide security to a Plan under Section 401(a)(29) of the IRC due to a Plan amendment that results in an increase in current liability for the plan year.

SECTION 3.12. INVESTMENT COMPANY ACT; PUBLIC UTILITY HOLDING COMPANY Act. Such Borrower is not an "investment company" as that term is defined in, and is not otherwise subject to regulation under, the Investment Company Act of 1940. Such Borrower is not a "holding company" as that term is defined in, and is not otherwise subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.13. FEDERAL RESERVE REGULATIONS. Such Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System of the United States), and no part of the proceeds of the Loans made to such Borrower will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock or for any purpose that violates, or is inconsistent with, the provisions of Regulation T, U or X of said Board of Governors.

SECTION 3.14. COLLATERAL. The security interests granted by ARTICLE VIII hereof, together with the security interests granted pursuant to the Existing Agreement and accompanying financing statements, when duly filed in the offices and jurisdictions set forth on SCHEDULE 3.14 hereof, create valid and perfected first priority Liens in and to the Collateral of such Borrower, enforceable against other Persons in all jurisdictions securing the payment, as applicable, of the Obligations hereunder. Upon filing such financing statements, to the extent that the filing of a financing statement is sufficient to perfect a security interest, no further action is required to perfect the Liens of the Collateral Agent in favor of the Lenders in the Collateral of such Borrower described in SECTION 8.01.

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SECTION 3.15. CHIEF PLACE OF BUSINESS. As of the Closing Date, the chief executive office and principal place of business address of such Borrower is 1545 Route 206, Bedminster, New Jersey 07921. If any change in any such location occurs, such Borrower shall notify the Agent and the Collateral Agent thereof not later than ten days after the occurrence thereof. As of the date of execution hereof, the books and records of such Borrower and all chattel paper and all records of account are located at the principal place of business or chief executive office of such Borrower and if any change in such location occurs, such Borrower shall notify the Agent and the Collateral Agent thereof not later than ten days after the occurrence thereof.

SECTION 3.16. OTHER CORPORATE NAMES. Except as set forth on SCHEDULE 3.16, such Borrower has not used and does not now use and will not use any corporate or fictitious name.

SECTION 3.17. INSURANCE. SCHEDULE 3.17 contains a description of all insurance which such Borrower maintains or has maintained on its behalf. All of such insurance is in full force and effect.

SECTION 3.18. MILESTONE PLAN. The Milestone Plan represents good faith projections of future financial performance of the Borrowers for the periods set forth therein. Such document has been prepared on the basis of the assumptions set forth therein, which the Borrowers believe are reasonable in light of current and reasonably foreseeable business conditions.

SECTION 3.19. CAPITALIZATION AND SUBSIDIARIES. The classes of Equity Interests, number of authorized shares, number of outstanding shares and par values or other designations of the Equity Interests or other equity securities or beneficial interests of such Borrower are correctly set forth on SCHEDULE 3.19. All the outstanding shares of Equity Interests or other equity securities or beneficial interests of such Borrower are duly and validly issued, fully paid and nonassessable, and none of such issued and outstanding shares, equity securities or beneficial interests has been issued in violation of, or is subject to, any preemptive or subscription rights. Except as set forth on SCHEDULE 3.19, there are no: (A) outstanding shares of Equity Interests or other

equity securities or beneficial interests or other securities convertible into or exchangeable for shares of Equity Interests or other equity securities or other beneficial interests of such Borrower, (B) outstanding rights of subscription, warrants, calls, options, contracts or other agreements of any kind, issued, made or granted to or with any Person under which such Borrower may be obligated to issue, sell, purchase, retire or redeem or otherwise acquire or dispose of any shares of Equity Interests or other equity securities or beneficial interests of such Borrower, or (C) Subsidiaries of such Borrower. KMC Holdings beneficially owns, directly or indirectly, all of the Equity Interests of such Borrower.

SECTION 3.20. REAL PROPERTY, LEASES AND EASEMENTS. Such Borrower leases or owns the real property described on SCHEDULE 3.20. Set forth on SCHEDULE 3.20 is a list of (i) all real property leased or owned by such Borrower (the "REAL PROPERTY") and (ii) all easements, rights of way, rights of occupancy, licenses and similar rights with respect to real property granted to

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such Borrower not otherwise disclosed to the Collateral Agent and the Lenders on a title report delivered to the Collateral Agent and the Lenders pursuant to the terms hereof (together with all easements, rights of way, rights of occupancy, licenses and similar rights with respect to real property granted to such Borrower which are so disclosed, collectively, the "EASEMENTS"). Also set forth on SCHEDULE 3.20 is a street address of the Real Property locations described above, including a description of such properties' current use. Except as set forth in SCHEDULE 3.20, such Borrower's interests in the Real Property and the Easements are sufficient in order for such Borrower to conduct its business and operations as presently conducted.

SECTION 3.21. SOLVENCY. After giving effect to any Loans made to such Borrower hereunder, the disbursement of the proceeds of such Loans pursuant to such Borrower's instructions and the execution, delivery and performance of each of the Loan Documents and transactions contemplated thereby, such Borrower is Solvent and is not contemplating either the filing of a petition by it under any state or federal bankruptcy or insolvency laws or the liquidation of all or a substantial portion of its property, and has no knowledge of any Person contemplating the filing of any such petition against such Borrower.

SECTION 3.22. BROKERS, ETC. Such Borrower has not dealt with any broker, finder, commission agent or other similar Person in connection with the Loans or the transactions being effected contemporaneously with this Agreement, and such Borrower covenants and agrees to indemnify and hold harmless the Agent, the Collateral Agent and the Lenders from and against, any broker's fee, finder's fee or commission in connection with such transactions.

SECTION 3.23. NO MATERIAL MISSTATEMENTS. Neither any report, financial statement, exhibit or schedule furnished by or on behalf of such Borrower to the Agent, the Collateral Agent or any Lender in connection with the negotiation of this Agreement and the other Loan Documents or included herein or therein, nor any other information required to be furnished pursuant to the provisions of ARTICLE V hereof, contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein not materially misleading.

SECTION 3.24. YEAR 2000 PROBLEMS. Each Borrower has completed and implemented a Year 2000 Corrective Plan and Year 2000 Corrective Actions, has completed Year 2000 Implementation Testing and has eliminated all Year 2000 Problems, except where the failure to correct the same could not reasonably be expected to have a Material Adverse Effect.

ARTICLE IV . CONDITIONS FOR LOANS

The obligations of each Lender to make Loans hereunder are subject to the accuracy, as of the Closing Date and as of the date of making of each of the Loans after the Closing Date, of the representations and warranties

contained in ARTICLE III (except that any representations or warranties that relate to a specified date shall only be reaffirmed as of such date) and the

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other Loan Documents, to the performance by each Borrower of its obligations to be performed hereunder on or before the date of such Loan and to the satisfaction of the following further conditions:

SECTION 4.01. CONDITIONS PRECEDENT TO INITIAL LOAN ON OR AFTER THE CLOSING DATE. In the case of the Loans to be made on the Closing Date and Letters of Credit to be issued or Credit Support for any Letters of Credit to be incurred on the Closing Date:

(a) All then applicable legal matters incident to this Agreement and the other Loan Documents shall be reasonably satisfactory to Counsel.

(b) The Agent and the Collateral Agent, as applicable, shall have received payment in full of the fees set forth in the Fee Letters, and all the other documented out-of-pocket costs and expenses of the Agent and the Collateral Agent incurred on or prior to the Closing Date, including, without limitation, reasonable attorneys' and paralegals' fees and expenses and the fees and expenses incurred in connection with preparation of any environmental audits;

(c) (1) The Agent and the Collateral Agent shall have received the following items, in each case in form and substance satisfactory to the Agent and the Collateral Agent:

(i) the Financials;

(ii) the Milestone Plan showing in reasonable detail and specifying any material underlying assumptions, for the subsequent nine (9) year period, the Borrower's anticipated revenues and expenses and projected statements of cash flow and information with respect to projected capital expenditures and changes in working capital over such period, and a detailed Systems construction and buildout schedule;

(iii) certificates substantially in the form of EXHIBITS J-1, and J-2 hereto, dated the Closing Date, of the secretary or assistant secretary of each of the Borrowers or the sole members of the Borrowers, as applicable, and KMC Holdings, certifying (A) (1) the names and true signatures of the officers authorized to sign each Loan Document to which any Borrower or KMC Holdings is a party, (2) the resolutions of the Board of Directors of each Borrower or KMC Holdings, as applicable, approving the transactions contemplated by the Loan Documents to which each is a party, (3) each Borrower's, or KMC Holdings', as applicable, bylaws, and (B) only with respect to the certificate of KMC Holdings, (1) true and correct copies of the Indentures, (2) true and correct copies of the Management Agreement and the Tax Sharing Agreement and (3) evidence satisfactory to the Agent and the Collateral Agent that Holdings III has either been dissolved or merged into KMC Holdings;

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(iv) the written opinions of special, regulatory and local counsel for the Borrowers and KMC Holdings, dated the Closing Date, addressed to the Agent, the Collateral Agent and the Lenders satisfactory to (and containing only such qualifications and limitations as are satisfactory to)

Counsel, which opinions shall be substantially in the forms set forth in EXHIBITS K-1, K-2 and K-3, respectively, attached hereto;

- (v) certificates of appropriate public officials dated not more than 30 days prior to the Closing Date, as to the legal existence or qualification, and good standing of each Borrower and KMC Holdings from such Person's jurisdiction of organization and from the jurisdiction in which such Person has its principal place of business;
- (vi) each Borrower's and KMC Holdings' Certificate or Articles of Incorporation (or other constituent or organizational documents, as the case may be), in each case, as amended, modified or supplemented on or prior to the Closing Date, each certified to be true, correct and complete by the Secretary of State of the state in which such Person is organized;
- (vii) the General Reaffirmation and Modification Agreement in the form of EXHIBIT T hereto duly executed and delivered by the Borrowers and KMC Holdings;
- (viii) the Term B Loan Notes duly executed and delivered by the Borrowers;
- (ix) this Agreement duly executed and delivered by the Borrowers; and
- (x) Addenda to that certain Trademark Security Agreement dated as of December 22, 1998 between the Borrowers other than KMC III, Leasing III, Telecom.com and Services, and the Collateral Agent, duly executed and delivered by KMC III, Leasing III, Telecom.com and Services.

(2) The Collateral Agent shall have received the following items in each case in form and substance satisfactory to the Collateral Agent:

- (i) Pledge Supplement duly executed by KMC Holdings with respect to the Equity Interests of KMC III and Telecom.com, together with, in each case, for all such Equity Interests which are certificated, stock certificates and undated stock powers executed in blank in form and substance satisfactory to the Collateral Agent and for all such Equity Interests which are limited liability company interests, pledge instructions and

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initial transaction statements in form and substance satisfactory to the Collateral Agent;

- (ii) a Pledge Agreement duly executed by KMC III with respect to the Equity Interests of Leasing III and Services, together with for all such Equity Interests which are certificated, stock certificates and undated stock powers executed in blank in form and substance satisfactory to the Collateral Agent and for all such Equity Interests which are limited liability company interests, pledge instructions and initial transaction statements in form and substance satisfactory to the Collateral Agent;
- (iii) loss payable endorsements substantially in the form of EXHIBIT M attached hereto with respect to each Borrower's insurance policies relating to the Collateral, and insurance certificates required by SECTION 5.04(g) from nationally recognized insurance brokers with respect to each Borrower's insurance policies;
- (iv) with respect to each Borrower's then existing Collection

Accounts, Restricted Account Agreements substantially in the form of such agreements executed and delivered pursuant to the Existing Agreement, copies of which are attached as EXHIBIT N hereto, duly executed by the applicable Borrower and the financial institutions maintaining the Collection Accounts (except to the extent previously delivered pursuant to the Existing Agreement);

- (v) Addenda to the Collateral Assignment of Licenses duly executed by KMC III, Leasing III, Telecom.com and Services, and an updated Schedule I thereto certified as being complete and correct by all the Borrowers, together with consents to assignment of licenses and rights from Persons designated by the Collateral Agent duly executed by such Persons, including agreements as to default notices, cure rights, waiver of lien rights, conveyance of nondisturbance rights and other terms satisfactory to the Collateral Agent;
- (vi) Addenda to the Collateral Assignment of Leases duly executed by KMC III, Leasing III, Telecom.com and Services, and an updated Schedule I thereto certified as being complete and correct by all the Borrowers, together with consents to assignment, duly executed by the appropriate Persons, including agreements as to default notices, cure rights, waiver of lien rights, conveyance of nondisturbance rights and other terms satisfactory to the Collateral Agent with respect to those leased properties specified by the Collateral Agent, together with landlord waivers in the form

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of EXHIBIT D hereto executed by the appropriate landlord with respect to those leased properties specified by the Collateral Agent;

- (vii) Completed environmental questionnaires and indemnity agreement executed by KMC III, Leasing III, Telecom.com and Services and Phase I Environmental Reports with respect to premises described on Schedule 3.10 (if any); and
- (viii) Access Agreements executed and delivered by Kamine Development Corp. with respect to KMC III's, Leasing III's, Telecom.com's and Services' premises located at 1545 Route 206, Suite 300, Bedminster, New Jersey in form and substance satisfactory to the Collateral Agent.

(d) The Agents or the Collateral Agent, as applicable, shall have satisfactorily completed their review of any Lucent Purchase Agreement, any Additional Purchase Agreements, construction and maintenance contracts, right of way agreements and interconnection agreements related to the Systems being financed with the Loans made on the Closing Date.

(e) The Collateral Agent shall have received evidence satisfactory to the Collateral Agent that the Collateral Agent's security interests in the Collateral have been properly perfected and constitute first and prior security interests subject only to Permitted Liens, including by (i) filing Mortgages, the Collateral Assignment of Licenses, the Collateral Assignment of Leases, leasehold mortgages and UCC-1 financing statements (including, without limitation, fixture filings) in certain filing and recording offices; (ii) filing the Trademark Security Agreement in the United States Patent and Trademark Office, (iii) obtaining consents to the Collateral Assignments of Licenses and the Collateral Assignments of Leases and (iv) taking possession of stock certificates and other instruments, in each case, as requested by the Collateral Agent.

(f) The Collateral Agent shall have received evidence satisfactory to the Collateral Agent, including the results of searches conducted in the mortgage recording, UCC, tax Lien and judgment filing records in each appropriate filing office or jurisdiction, that there are no Liens against the

Collateral except Permitted Liens.

(g) The Agent shall have received evidence satisfactory to the Agent that no Borrower has any Debt other than as described in SECTION 6.13 and that the holders of any such Debt described in CLAUSES (v) and (vii) of SECTION 6.13 have executed subordination and standstill agreements satisfactory to the Agent.

(h) The Collateral Agent, as it may require, shall have obtained or waived in writing with respect to each real estate and material equipment lease and each mortgage of any Borrower relating to the Systems being financed with the initial Loan made after the Closing Date (i) the right from the applicable lessors and mortgagees to cure all payment defaults under such leases and

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mortgages by making payment directly to the applicable lessors and mortgagees and (ii) landlord waivers and consents, as the Collateral Agent may require, with respect to each leased facility.

(i) The Agents shall have satisfactorily completed their due diligence investigation of the Borrowers and the Systems and the Borrowers' other assets, and their respective officers and directors including, without limitation, environmental reviews, engineering reviews, review of material agreements of the Borrowers and review of easement matters.

(j) All right of way agreements with respect to each System under construction shall be sufficient to allow full operation of such System and shall, upon request of the Collateral Agent, be assignable to the Collateral Agent or its designee.

(k) Lucent shall have executed and delivered to the Collateral Agent, in form and substance satisfactory to the Agents, a reaffirmation of the Consent and Subordination Agreement dated December 22, 1998 among Lucent, the Borrowers other than KMC III, Leasing III, Telecom.com and Services, and the Collateral Agent.

(l) The obligations of KMC III and Leasing III under the Lucent Loan Agreement shall be discharged in full with the proceeds of the Loans to be made on the Closing Date.

SECTION 4.02. CONDITIONS PRECEDENT TO ALL LOANS. In the case of each Loan hereunder and the obligation to issue Letters of Credit or provide Credit Support therefor:

(a) The representations and warranties of each Borrower set forth in ARTICLE III or in any other Loan Document shall be true and correct in all material respects on and as of the date of such Loan with the same effect as though such representations and warranties had been made on and as of such date, except that any representations or warranties that relate to a specified date shall only be reaffirmed as of such date.

(b) At the time of each such Loan, and after giving effect to such Loan, each Borrower shall be in compliance with all the terms and provisions set forth herein on its part to be observed or performed, and no Event of Default or Default shall have occurred and be continuing.

(c) At the time of each such Loan and after giving effect to each such Loan, there shall have been no material adverse change in the condition (financial or otherwise), operations, properties or prospects of any Borrower since the date of the Financials.

(d) Such Loan, when combined with Loans previously made to the Borrowers, shall not exceed the Commitment Amount.

(e) All legal matters incident to such Loan and the Loan Documents shall be satisfactory to Counsel.

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(f) The Agent shall have received a Notice of Borrowing for the Loan and acceptance certificate and invoices required by SECTION 2.03.

(g) The Collateral Agent shall have first priority Liens on all personal and real property assets that comprise or relate to each System to be funded by such Loan, shall have received collateral assignments of all material third party agreements relating to such Systems, consented to by the applicable third parties, as requested by the Collateral Agent, and shall have received evidence that all necessary Governmental Approvals for such System have been obtained.

(h) The Collateral Agent shall have received copies of such lien waivers and other acknowledgments from Persons constructing the Systems, any subcontractors or vendors (including Lucent or each Additional Vendor) with respect to the construction of the Systems as the Collateral Agent may reasonably request.

(i) All fees and expenses which are due and payable to the Agent and the Collateral Agent on or prior to the date of the advance of such Loan shall have been paid.

(j) The Agents or the Collateral Agent, as applicable, shall have satisfactorily completed their review of any Additional Purchase Agreements, construction and maintenance contracts related to the Systems being financed with such Loan and the interconnection agreements for each System being financed with such Loan.

(k) The Collateral Agent shall have obtained or waived in writing with respect to each real estate and material equipment lease, each mortgage, and each material third party agreement relating to the Systems being financed with such Loan (i) the right from the applicable lessors and mortgagees to cure all payment defaults under such leases and mortgages by making payments directly to the applicable lessors and mortgagees, as the Collateral Agent may request, (ii) landlord waivers and consents, as the Collateral Agent may require, with respect to each leased facility, and (iii) consents to collateral assignment, as the Collateral Agent may require, with respect to each such material third party agreement.

(l) There shall not have occurred in the opinion of the Agents, any material adverse change in any two of the three members of Borrower's or KMC Holdings' senior management team, which shall comprise its Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

(m) If a Loan is requested to finance Aged Equipment, the Collateral Agent, if it so elects, shall have obtained an appraisal of such Aged Equipment from an appraiser selected by the Collateral Agent, which appraisal shall be satisfactory to the Collateral Agent and the cost of which shall be borne by such Borrower.

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ARTICLE V AFFIRMATIVE COVENANTS

Each Borrower covenants and agrees that so long as this Agreement shall remain in effect, any Commitment hereunder shall be outstanding or any Obligations hereunder or under any of the other Loan Documents are unpaid, unless the Requisite Lenders shall have otherwise given prior written consent:

SECTION 5.01. CORPORATE AND FRANCHISE EXISTENCE. Such Borrower shall preserve and maintain its corporate existence, rights, franchises, licenses and privileges in the jurisdiction of its organization, and in all other jurisdictions in which such qualification is necessary in view of its business and operations and property and preserve, protect and keep in full force and effect its material rights and its Governmental Approvals.

SECTION 5.02. COMPLIANCE WITH LAWS, ETC. Such Borrower shall comply in all material respects with all laws and regulations applicable to it, including, without limitation, Environmental Laws, regulations promulgated by

the FCC and any PUC, and other telecommunications laws and regulations, and all material contractual obligations applicable to it.

SECTION 5.03. MAINTENANCE OF PROPERTIES. Such Borrower shall at all times maintain in good repair, working order and condition, excepting ordinary wear and tear, all of its properties material to its operations and make all appropriate repairs, replacements and renewals thereof, in each case consistent with prudent industry practices and sound business judgment and with respect to the maintenance of machinery and equipment, in compliance with applicable government regulations, manufacturers' warranty requests and any licensing requirements.

SECTION 5.04. INSURANCE.

(a) COVERAGE. Without limiting any of the other obligations or liabilities of such Borrower under this Agreement, such Borrower shall carry and maintain, and require each contractor retained in connection with the construction of any System to carry and maintain, each at its own expense, at least the minimum insurance coverage set forth in this SECTION 5.04. Such Borrower shall also carry and maintain any other insurance that the Collateral Agent may reasonably require from time to time. All insurance carried pursuant to this SECTION 5.04 shall be placed with such insurers that have an A.M. Best rating of A:X or better, or as may be acceptable to the Collateral Agent. Such coverage shall be in such form, with terms, conditions, limits and deductibles as shall be acceptable to the Collateral Agent.

(b) CONSTRUCTION PERIOD. During the period from, and including the commencement of construction of any System, to and including the completion of construction of any System, such Borrower shall maintain in full force and effect, pay all premiums when due in respect of, and comply with all terms and conditions of the following coverages:

(i) ALL RISK BUILDER'S RISK. Such Borrower shall maintain all risk builder's risk insurance covering physical loss or damage to such System

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including, but not limited to, fire and extended coverage, collapse, flood, earth movement and windstorm, and comprehensive boiler and machinery coverage (including electrical malfunction and mechanical breakdown). Such insurance shall cover all property during construction and testing, as well as any and all materials, equipment and machinery intended for such System during off-site storage and inland transit and, if necessary, during ocean and air transit. All transit coverage shall be on a "warehouse to warehouse" basis. The all risk builder's risk policy shall be written on a replacement cost basis for the full construction cost of such System or in an amount acceptable to the Collateral Agent and shall contain an agreed amount endorsement waiving any coinsurance penalty. Coverage shall not exclude resultant damage caused by faulty workmanship, design or materials nor shall it exclude machinery and equipment under guarantee or warranty; and

(ii) DELAY IN START-UP. As an extension of the coverage required under SUBSECTION (B)(i) or as a separate policy, such Borrower shall maintain delay in start-up insurance covering net profits (if any), continuing expenses and debt service payments resulting from delays in achieving the completion date for the construction of any System caused by (i) physical loss or damage to such System during construction or testing, (ii) loss or damage to equipment while in ocean, air or inland transit or (iii) loss or damage to equipment while in storage away from the site. Contingent delay in start-up coverage shall also be included to cover delay caused by damage to critical path items while under manufacture or at the supplier's premise. Such extension or separate policy shall have a period of indemnity of not less than twelve (12) months with an agreed amount limit not less than \$20,000,000 combined property, delay in start-up and extra expense per System and shall contain an agreed amount endorsement waiving any coinsurance penalty. Such extension or separate policy shall also cover expediting expenses in an amount not less than \$1,000,000. Deductibles may not exceed seven (7) days; and

(iii) COMPREHENSIVE OR COMMERCIAL GENERAL LIABILITY. Such Borrower shall maintain comprehensive general liability insurance written on an occurrence basis with a limit of liability not less than \$1,000,000 per occurrence and \$2,000,000 in the aggregate. Coverage shall include, but not be limited to, premises/operations, explosion, collapse, and underground hazards, broad form contractual, independent contractors products/completed operations, broad form property damage, and personal injury liability. Such insurance shall not exclude coverage for punitive or exemplary damages where insurable by law; and

(iv) WORKERS' COMPENSATION/EMPLOYER'S LIABILITY. Such Borrower shall maintain workers' compensation insurance in accordance with statutory provisions covering accidental injury, illness or death of an employee of such Borrower while at work or in the scope of his or her employment with such Borrower and employer's liability insurance in an amount not less than \$500,000. Such coverage shall not contain any occupational disease exclusions; and

(v) AUTOMOBILE LIABILITY. Such Borrower shall maintain automobile liability insurance covering owned, non-owned, leased, hired or borrowed

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vehicles against bodily injury or property damage. Such coverage shall have a limit of not less than \$1,000,000; and

(vi) EXCESS/UMBRELLA LIABILITY. Such Borrower shall maintain excess or umbrella liability insurance in an amount not less than \$30,000,000 written on an occurrence basis providing coverage limits in excess of the insurance limits required under SECTION 5.04(B)(iii), (B)(iv) (employer's liability only), and (b)(v). Such insurance shall follow from the primary insurances and drop down in case of exhaustion of underlying limits and/or aggregates. Such insurance shall not exclude coverage for punitive or exemplary damages where insurable by law.

(c) CONTRACTOR INSURANCE COVERAGE. Such Borrower shall cause each contractor retained in connection with the construction of any System to carry and maintain, in full force and effect, such insurance and such bonds as such contractor is required to maintain pursuant to the following:

(i) COMPREHENSIVE OR COMMERCIAL GENERAL LIABILITY. Such contractor shall maintain comprehensive general liability insurance covering the construction of such System written on an occurrence basis with a limit of liability not less than \$5,000,000. Coverage shall include, but not be limited to, premises/operations, explosion, collapse, and underground hazards, sudden and accidental pollution, broad form contractual, independent contractors, products/completed operations, broad form property damage, and personal injury liability. Such insurance may be written in any combination of primary and excess/umbrella forms. The products/completed operations coverage shall be extended to cover such System for two years after completion of such System. Such insurance shall not exclude coverage for punitive or exemplary damages where insurable by law; and

(ii) WORKERS' COMPENSATION/EMPLOYER'S LIABILITY. Such contractor shall maintain workers' compensation insurance in accordance with statutory provisions covering accidental injury, illness or death of an employee of such contractor while at work or in the scope of his or her employment with such contractor and employer's liability insurance in an amount not less than \$5,000,000 written in any combination of primary and excess/umbrella policies, and

(iii) AUTOMOBILE LIABILITY. Such contractor shall maintain automobile liability insurance covering owned, non-owned, leased, hired or borrowed vehicles against bodily injury or property damage. Such coverage shall have a limit of not less than \$5,000,000 written in any combination of primary and excess/umbrella policies.

(d) OPERATIONS PERIOD. Beginning on the completion date of each System, such Borrower shall maintain in full force and effect, pay all premiums when due in respect of, and comply with all terms and conditions of the following insurance coverages for each System.

(i) ALL RISK PROPERTY INSURANCE. Such Borrower shall maintain all risk property insurance covering such System against physical loss or

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damage, including but not limited to fire and extended coverage, collapse, flood, earth movement and windstorm, and comprehensive boiler and machinery coverage (including electrical malfunction and mechanical breakdown). Such insurance shall cover each and every component of such System and shall not contain any exclusion for resultant damage caused by faulty workmanship, design or materials. Coverage shall be written on a replacement cost basis with property, business interruption and extra expense insurance in a combined amount of \$30,000,000 per System. Such insurance policy shall contain an agreed amount endorsement waiving any coinsurance penalty; and

(ii) BUSINESS INTERRUPTION. As an extension of the coverage required under SECTION 5.04(d)(i), such Borrower shall maintain business interruption insurance in an agreed amount equal to twelve (12) months projected loss of net profits, continuing expenses and debt service payments of such System and shall contain an agreed amount endorsement waiving any coinsurance penalty. Contingent business interruption insurance shall also be included to cover the major suppliers and customers of the Borrowers. Coverage shall be included for expediting expenses in an amount not less than \$1,000,000. Such insurance shall also cover service interruption. Deductibles shall not exceed seven (7) days; and

(iii) COMPREHENSIVE OR COMMERCIAL GENERAL LIABILITY INSURANCE. Such Borrower shall maintain comprehensive general liability insurance written on an occurrence basis with a limit of not less than \$1,000,000 per occurrence and \$2,000,000 in the aggregate. Such coverage shall include, but not be limited to, premises/operations, explosion, collapse, underground hazards, contractual liability, independent contractors, products/completed operations, property damage and personal injury liability. Such insurance shall not exclude coverage for punitive or exemplary damages where insurable by law; and

(iv) WORKERS' COMPENSATION/EMPLOYER'S LIABILITY. Such Borrower shall maintain workers' compensation insurance in accordance with statutory provisions covering accidental injury, illness or death of an employee of such Borrower while at work or in the scope of his or her employment with such Borrower and employer's liability insurance in an amount not less than \$500,000. Such coverage shall not contain any occupational disease exclusions; and

(v) AUTOMOBILE LIABILITY. Such Borrower shall maintain automobile liability insurance covering owned, non-owned, leased, hired or borrowed vehicles against bodily injury or property damage. Such coverage shall have a limit of not less than \$1,000,000; and

(vi) EXCESS/UMBRELLA LIABILITY. Such Borrower shall maintain excess or umbrella liability insurance in an amount not less than \$30,000,000 written on an occurrence basis providing coverage limits in excess of the insurance limits required under SECTIONS 5.04(d)(iii), (d)(iv) (employer's liability only), and (d)(v). Such insurance shall follow from the primary insurances and drop down in case of exhaustion of underlying limits and/or

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aggregates. Such insurance shall not exclude coverage for punitive or exemplary damages where insurable by law.

(e) ENDORSEMENTS. Such Borrower shall cause all insurance carried and maintained in accordance with this SECTION 5.04 to be endorsed as follows:

(i) Such Borrower shall be the named insured and the Collateral Agent shall be an additional insured and loss payee with respect to policies described in SECTION 5.04(b)(i), (b)(ii), (d)(i) and (d)(ii). Such Borrower shall be the named insured and the Collateral Agent shall be an additional insured with respect to policies described in SECTION 5.04(b)(iii), (b)(v), (b)(vi), (d)(iii), (d)(v) and (d)(vi). Such Borrower and the Collateral Agent shall be additional insureds under all insurances carried by contractors under SECTION 5.04(c) to the extent allowed by law. All policies shall provide that any obligation imposed upon such Borrower and/or any contractor, including but not limited to the obligation to pay premiums, shall be the sole obligation of such Borrower and/or the contractor and not that of the Agent, the Collateral Agent or any Lender; and

(ii) with respect to policies described in SECTION 5.04(b)(i) and (b)(ii), and (d)(i) and (d)(ii), the interests of the Collateral Agent shall not be invalidated by any action or inaction of such Borrower, or any other Person, and shall insure the Collateral Agent regardless of any breach or violation by such Borrower, any contractor or any other Person, of any warranties, declarations or conditions of such policies, and

(iii) inasmuch as the liability policies are written to cover more than one insured, all terms, conditions, insuring agreements and endorsements, with the exception of the limits of liability, shall operate in the same manner as if there were a separate policy covering such insured; and

(iv) the insurers thereunder shall waive all rights of subrogation against the Agent, the Collateral Agent or the Lenders, any right of setoff or counterclaim and any other right to deduction, whether by attachment or otherwise; and

(v) such insurance shall be primary without right of contribution of any other insurance carried by or on behalf of the Agent, the Collateral Agent or the Lenders with respect to their interests as such in such System; and

(vi) if such insurance is canceled for any reason whatsoever, including nonpayment of premium, or any changes are initiated by such Borrower or carrier which affect the interests of the Collateral Agent, such cancellation or change shall not be effective as to the Collateral Agent until thirty (30) days, except in the case of non-payment of premium which shall be ten (10) days, after receipt by the Collateral Agent of written notice sent by registered mail from such insurer.

(f) CERTIFICATIONS. On the Closing Date, and at each policy renewal, but not less than annually, such Borrower shall provide to the Collateral Agent approved certification from each insurer or by an authorized representative of each insurer. Such certification shall identify the underwriters, the type of

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insurance, the limits, deductibles, and term thereof and shall specifically list the special provisions delineated for such insurance required for this SECTION 5.04.

(g) INSURANCE REPORT. Concurrently with the furnishing of all certificates referred to in this SECTION 5.04, such Borrower shall furnish the Collateral Agent with an opinion from an independent insurance broker, acceptable to the Collateral Agent, stating that all premiums then due have been paid and that, in the opinion of such broker, the insurance then maintained by such Borrower is in accordance with this section. Furthermore, upon its first knowledge, such broker shall advise the Collateral Agent promptly in writing of any default in the payment of any premiums or any other act or omission, on the part of any Person, which might invalidate or render unenforceable, in whole or

in part, any insurance provided by such Borrower hereunder.

(h) APPLICATION OF PAYMENTS. All payments received by such Borrower from any insurance referred in SECTION 5.04(b)(i), (b)(ii), (d)(i) and (d)(ii) shall be promptly delivered directly to the Collateral Agent, which amounts shall be applied by the Collateral Agent, upon request by such Borrower and provision to the Collateral Agent of detailed information, including a construction schedule and cost estimates, which establish to the reasonable satisfaction of the Collateral Agent that the amounts available and the proposed schedule are adequate to restore, replace or rebuild the property subject to insurance payments in a timely manner, to such restoration, replacement or rebuilding unless an Event of Default or Default shall have occurred and be continuing or such Borrower shall have failed to make such request within thirty (30) days after receipt of such amounts by Collateral Agent, in which case such amounts shall be applied in the Requisite Lenders' sole discretion to the repayment of the Obligations or such restoration, replacement or rebuilding.

(i) GENERAL. The Collateral Agent shall be entitled, upon reasonable advance notice, to review and/or receive copies of such Borrower's (or other appropriate party's) books and records regarding all insurance policies carried and maintained with respect to each System and such Borrower's obligations under this SECTION 5.04. Notwithstanding anything to the contrary herein, no provision of this Agreement or any other Loan Document shall impose on the Collateral Agent, the Agent or any Lender any duty or obligation to verify the existence or adequacy of the insurance coverage maintained by such Borrower, nor shall the Collateral Agent, the Agent or any Lender be responsible for any representations or warranties made by or on behalf of such Borrower to any insurance broker, company or underwriter. The Collateral Agent or the Agent, at its sole option, may obtain such insurance if not provided by such Borrower; in such event, such Borrower shall reimburse the Collateral Agent or the Agent upon demand for the cost thereof together with interest, and such costs shall constitute Obligations secured by the Collateral.

SECTION 5.05. OBLIGATIONS AND TAXES. Such Borrower shall pay all of its indebtedness and obligations promptly and in accordance with their terms and pay and discharge promptly all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become in default, as well as all lawful claims

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for labor, materials and supplies or otherwise which, if unpaid, might become a Lien upon such properties or any part thereof; PROVIDED, HOWEVER, that such Borrower shall not be required to pay and discharge or to cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings diligently pursued, and such Borrower shall set aside on its books such reserves as are required by GAAP with respect to any such tax, assessment, charge, levy or claim so contested.

SECTION 5.06. FINANCIAL STATEMENTS, REPORTS, ETC. Such Borrower shall furnish to the Agent and the Lenders (except as otherwise provided herein):

(a) within one hundred twenty (120) days after the end of each fiscal year, annual consolidated and consolidating financial statements for KMC Holdings, and combined financial statements for the Borrowers, including the balance sheets and statements of operations, stockholders' equity (consolidated only) and cash flows, for such fiscal year, prepared in accordance with GAAP, which consolidated financial statements and other above described financial information shall have been audited by a nationally recognized independent certified public accounting firm satisfactory to the Agent, and accompanied by such independent certified public accounting firm's unqualified opinion;

(b) within forty-five (45) days after the end of the first three fiscal quarters during each fiscal year and within one hundred twenty (120) days after the end of the fourth fiscal quarter (i) consolidated and consolidating unaudited balance sheets and statements of operations, and consolidated statements of stockholders' equity and cash flows for KMC Holdings, and combined unaudited balance sheets, statements of operations, stockholders' equity and

cash flows of the Borrowers as of the end of each such fiscal quarter, as applicable, and for the then elapsed portion of the fiscal year and (ii) a statement of revenues and EBITDA for the Borrowers as of the end of each such fiscal quarter, as applicable, and for the then elapsed portion of the fiscal year, calculated for each city where a System has been constructed in accordance with the Milestone Plan;

(c) within forty-five (45) days after the end of each month during each fiscal year (or within one hundred twenty (120) days after the end of each December), a detailed statement of operations for the Borrowers on a combined basis for such month and year-to-date period with comparisons to the corresponding projections for such month and year-to-date period set forth in the Milestone Plan; PROVIDED, that such Borrowers shall only be required to deliver the statement described in this SECTION 5.06(c) on a quarterly basis at any time that, and only for so long as, the Borrowers on a combined basis have achieved positive EBITDA;

(d) concurrently with provision of the financial statements referred to in CLAUSES (a), (b) and (c) above, a certificate of KMC Holdings' independent certified public accountant or KMC Holdings' chief financial officer, as applicable, to the effect that the financial statements referred to in CLAUSE (a), (b) and (c) above, present fairly the financial position and results of operations of KMC Holdings, and the Borrowers and as having been prepared in accordance with GAAP consistently applied, in each case subject to normal year end audit adjustments except for the statements referred to in CLAUSE (a) above;

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(e) concurrently with the provision of (i) the financial statements referred to in CLAUSE (a) above and (ii) any statements delivered pursuant to CLAUSE (b) above in respect of the periods ending March 31, June 30 or September 30, a Periodic Reporting Certificate of the chief financial officer of KMC Holdings setting forth the calculations contemplated in ARTICLE VII hereof and certifying as to the fact that such Person has examined the provisions of this Agreement and that no Event of Default or any Default, shall have occurred and be continuing or if such an event has occurred, a statement explaining its nature and extent and setting forth the steps the Borrowers propose to take to cure such Event of Default or Default;

(f) (i) not later than December 1 of each calendar year, consolidating and consolidated projected annual statements of operations, balance sheets and cash flow statements for KMC Holdings for the succeeding fiscal year, such statements to be reasonably acceptable to the Agents, and (ii) not later than January 15 of each calendar year, an annual operating budget on a quarterly basis for such calendar year, with each such budget to be in compliance with the Milestone Plan;

(g) to the Collateral Agent, all material agreements or licenses affecting the Governmental Approvals of any Borrower or any System promptly after any execution, or material amendment thereto;

(h) to the Collateral Agent, promptly upon their becoming available, copies of any material periodic or special documents, statements or other information filed by any Borrower with the FCC, PUC or other Governmental Authority in connection with the construction and/or operation of any System or with respect to the transactions contemplated by any of the Loan Documents, and copies of any material notices and other material communications from the FCC, PUC or from any other Governmental Authority;

(i) immediately upon any officer of any Borrower obtaining knowledge of any condition or event (i) which either constitutes an Event of Default or a Default, (ii) which renders any representation or warranty contained herein materially false or misleading, or when made, renders any document materially false or misleading, or (iii) which would result in any financial results for any fiscal year to materially deviate from the financial results projected for such fiscal year in the Milestone Plan or the financial projections described in CLAUSE (f) above, a certificate signed by an authorized officer of such Borrower specifying in reasonable detail the nature and period of existence thereof and what corrective action such Borrower has taken or proposes to take with respect thereto;

(j) within thirty (30) days after the end of each fiscal year of such Borrower, a certificate signed by an authorized officer of such Borrower (x) setting forth all the Real Property, Easements, licenses, rights of way and other similar interests in real property acquired by such Borrower in the preceding year and (y) confirming that no Default or Event of Default has occurred and is continuing;

(k) evidence in the manner set forth in SECTION 5.04(e) of insurance complying with SECTION 5.04;

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(l) following the written request of the Agent, not later than forty-five (45) days after the end of each fiscal month, reports on accounts receivable and accounts payable of such Borrower in such detail and format as may be reasonably requested by the Agent;

(m) promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which such Borrower or KMC Holdings files with the Securities and Exchange Commission; and

(n) promptly from time to time such other information regarding the operations (including, without limitation, construction budgeting and System completion), business affairs and condition (financial or otherwise) of such Borrower or KMC Holdings as the Agent may reasonably request.

SECTION 5.07. LITIGATION AND OTHER NOTICES. Such Borrower shall give the Agent prompt written notice upon obtaining knowledge of the following: (a) all Events of Default or Defaults and all events of default or any event that would become an event of default upon notice or lapse of time or both under any of the terms or provisions of any note, or of any other evidence of indebtedness or agreement or contract governing the borrowing of money in excess of \$250,000 in the aggregate, of such Borrower; (b) any levy, attachment, execution or other process against any of the property or assets, real or personal, of such Borrower in an amount in excess of \$250,000; (c) the filing or commencement of any action, suit or proceeding by or before any court or any Governmental Authority which, if adversely determined against such Borrower, would result in a Material Adverse Effect; (d) any material adverse notice, letter or other correspondence of any kind from the FCC or the PUC relating to the Governmental Approvals or any System; (e) any default under any other material license, agreement or contract to which such Borrower is a party; and (f) any matter which has resulted in, or which such Borrower reasonably believes will result in, a Material Adverse Effect on such Borrower.

SECTION 5.08. MORTGAGES; LANDLORD CONSENTS; LICENSES AND OTHER AGREEMENTS. As security for the Obligations, such Borrower shall with respect to each System (a) promptly execute and deliver to the Collateral Agent (1) Mortgages in favor of and satisfactory to the Collateral Agent with respect to any real property purchased by such Borrower on which a switch or network operating center is located, and at the request of the Collateral Agent, with respect to any other real property purchased by such Borrower, together with lender's title policies for any such real property satisfactory to the Collateral Agent, if requested by the Collateral Agent, (2) leasehold mortgages or collateral assignments of leases, landlord waivers or consents, and appropriate Uniform Commercial Code fixture financing statements, in each case satisfactory to the Collateral Agent with respect to any real property leased by such Borrower and on which Switch Equipment or a network operating center is located, and at the request of the Collateral Agent, with respect to any other leased real property of such Borrower, (3) Mortgages or collateral assignments and consents satisfactory to the Collateral Agent with respect to such Borrower's Easements and rights of way, as requested by the Collateral Agent, (4) collateral assignments of leases and lessor consents, satisfactory to and as requested by the Collateral Agent, with respect to any long-haul fiber leased by such Borrower and (5) with respect to each System, collateral assignments and consents to such assignments from the applicable third Persons, for each other material lease, license, contract or other agreement or instrument entered into

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by such Borrower after the date hereof, as required by the Collateral Agent and (b) (1) update Schedule 1 to the Collateral Assignment of Licenses to cover all Governmental Approvals obtained by such Borrower after the Closing Date and agreements entered into by such Borrower after the Closing Date with third Persons, (2) obtain consents to collateral assignments from the licensors granting the Governmental Approvals referred to in CLAUSE (b)(1) above and from those third Persons referred to in CLAUSE (b)(1) above that are specified by the Collateral Agent, such consents to collateral assignment to be in form and substance satisfactory to the Collateral Agent and (3) update Schedule 1 to the Collateral Assignment of Leases to cover all leases referred to in CLAUSE (a)(2) above.

SECTION 5.09. ERISA. Such Borrower shall comply in all material respects with the applicable provisions of ERISA and furnish to the Agent, (i) as soon as possible, and in any event within thirty (30) days after such Borrower or any officer of such Borrower knows or has reason to know that any Reportable Event with respect to any Plan has occurred or any Termination Event has occurred, a statement of an officer of such Borrower setting forth details as to such Reportable Event or Termination Event and the corrective action that such Borrower proposes to take with respect thereto, together with a copy of the notice of any such Reportable Event given to the PBGC, and (ii) promptly after receipt thereof, a copy of any notice such Borrower may receive from the PBGC relating to the intention of the PBGC to terminate any Plan or to appoint a trustee to administer any such Plan.

SECTION 5.10. ACCESS TO PREMISES AND RECORDS. Such Borrower shall permit representatives of the Agents to have access to such Borrower's books and records and to the Collateral and the premises of such Borrower at reasonable times upon reasonable notice and to make such excerpts from such records as such representatives deem necessary and to inspect the Collateral.

SECTION 5.11. DESIGN AND CONSTRUCTION. Such Borrower shall design, construct, equip and operate its Systems substantially as previously disclosed to Lenders in the Milestone Plan and in accordance with prudent industry standards.

SECTION 5.12. ENVIRONMENTAL NOTICES. If such Borrower shall (a) receive written notice that any violation of any Environmental Law may have been committed or is about to be committed by such Borrower, (b) receive written notice that any administrative or judicial complaint or order has been filed or is about to be filed against such Borrower alleging violations of any Environmental Law or requiring such Borrower to take any action in connection with any Release of any Contaminant into the environment, or (c) receive any written notice from a Governmental Authority or private party alleging that such Borrower may be liable or responsible for costs associated with a response to or cleanup of a Release or any damages caused thereby, such Borrower shall provide the Agent with a copy of such notice within twenty (20) Business Days of such Borrower's receipt thereof.

SECTION 5.13. AMENDMENT OF ORGANIZATIONAL DOCUMENTS. Such Borrower shall notify the Agent and the Collateral Agent of any amendment to its Certificate or Articles of Incorporation or other organizational documents within ten (10) days of the occurrence of any such event, and provide the Agent with copies of any amendments certified by the secretary of such Borrower and of

all other relevant documentation. Such Borrower shall promptly deliver to the Collateral Agent such financing statements executed by such Borrower which the Collateral Agent may request as a result of any such event.

SECTION 5.14. THIRD PARTY AGREEMENTS AND DELIVERY AND ACCEPTANCE CERTIFICATES. Such Borrower shall provide the Collateral Agent with (i) copies of all interconnection agreements, right of way agreements, easement agreements, real property leases, construction agreements, equipment purchase agreements, fiber leases, telephone line leases, state and local franchise agreements and other agreements with municipalities, that in each case relate to each System of

such Borrower, promptly after execution of each such agreement; PROVIDED, HOWEVER, that with respect to certain of the foregoing categories of agreements specified by the Collateral Agent, such Borrower shall be permitted to provide the Collateral Agent with inventories of the particular types of agreements in lieu of delivering copies of the agreements, which inventories shall be (x) in form and substance satisfactory to the Collateral Agent and (y) updated by the applicable Borrower promptly following the execution of any additional agreement of the type inventoried; PROVIDED, FURTHER, HOWEVER, that nothing in the foregoing proviso shall limit the Collateral Agent's ability to, at any time, request and receive a copy of any third party agreement from the applicable Borrower, and (ii) with respect to each System, copies of delivery and acceptance certificates substantially in the form of EXHIBIT R hereto with respect to each item of Telecommunications Equipment with an invoiced purchase price in excess of \$250,000, in each case, where such certificates are not required to be delivered to the Collateral Agent pursuant to SECTION 2.03(a), promptly after completion of such System or acceptance of such item of Equipment, as applicable.

SECTION 5.15. ACCOUNTS PAYABLE. Such Borrower shall pay each of its accounts payable in accordance with its practices as of the Closing Date but in any event no later than sixty (60) days after the due date, PROVIDED, HOWEVER, that such Borrower shall not be required to pay any account payable as long as the validity thereof shall be contested in good faith by appropriate protest or proceedings and such Borrower shall have set aside adequate reserves on its books with respect thereto in accordance with GAAP.

SECTION 5.16. INTELLECTUAL PROPERTY. Such Borrower shall enter into Intellectual Property Documents, in form and substance satisfactory to the Collateral Agent, with respect to all of the Intellectual Property owned by such Borrower.

SECTION 5.17. FISCAL YEAR. Such Borrower shall maintain a fiscal year ending on December 31.

SECTION 5.18. REQUIRED CONTRIBUTION. The Borrowers shall obtain the Required Contribution on or prior to August 31, 2000.

SECTION 5.19. SUBSIDIARY GUARANTEES AND PLEDGES. Such Borrower shall (i) cause each Person which becomes a Subsidiary of such Borrower and does not become a Borrower under this Agreement to execute a Guaranty and Security Agreement in the form of EXHIBIT U hereto, and (ii) execute a Pledge Agreement pursuant to which all of the Equity Interests in such Person will be pledged to the Collateral Agent, PROVIDED, that in the event such Person is an indirect

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Subsidiary of such Borrower, such Borrower shall cause each applicable Subsidiary of such Borrower to pledge all of the Equity Interests in such Person to the Collateral Agent.

SECTION 5.20. ACCOUNTING; MAINTENANCE OF RECORDS. Such Borrower shall maintain a system of accounting established and administered in accordance with GAAP. Such Borrower shall keep and maintain, and cause each of its Subsidiaries to keep and maintain, in all material respects, proper books of record and account in which entries in conformity with GAAP shall be made of all dealings and transactions in relation to their respective businesses and activities.

SECTION 5.21. FURTHER ASSURANCES. Such Borrower agrees to do such further acts and things and to execute and deliver to the Agent or the Collateral Agent such additional assignments, agreements, powers and instruments, at such Borrower's expense, as the Agent or the Collateral Agent may reasonably require or deem advisable to carry into effect the purposes of this Agreement and the other Loan Documents or to better assure and confirm unto the Agent or the Collateral Agent its rights, powers and remedies hereunder and thereunder.

ARTICLE VI NEGATIVE COVENANTS

Each Borrower covenants and agrees with the Agent, the Collateral Agent and the Lenders that as long as this Agreement shall remain in effect, any Commitment hereunder shall be outstanding or any Obligations hereunder or under any of the Loan Documents shall be unpaid, unless the Requisite Lenders shall have otherwise given prior written consent:

SECTION 6.01. LIENS, ETC. Such Borrower shall not create, incur, assume or suffer to exist, directly or indirectly, any Lien upon or with respect to any of its properties or the Collateral, now owned or hereafter acquired, or upon any proceeds, products, issues, income or profits therefrom except for the following ("PERMITTED LIENS"):

- (i) Liens granted pursuant to the Loan Documents;
- (ii) Liens securing any Purchase Debt to the extent that the Liens cover only the subject assets purchased with such Purchase Debt;
- (iii) Liens for taxes, assessments or governmental charges or levies on such Borrower's property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being diligently contested in good faith and by appropriate proceedings and for which such Borrower shall have set aside reserves on its books as required by GAAP;
- (iv) Liens imposed by law, such as landlord's, carrier's, warehousemen's and mechanic's liens, which liens shall be waived in writing to the extent waivable, and with respect to obligations not yet due or being contested in good faith by appropriate proceedings and in either case

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for which such Borrower shall have set aside adequate reserves on its books as required by GAAP;

(v) Liens arising out of pledges or deposits under workmen's compensation laws, unemployment insurance, old age pensions, or other social security benefits other than any Lien imposed by ERISA;

(vi) Liens incurred or deposits made in the ordinary course of business to secure surety bonds provided that such Liens shall extend only to cash collateral for such surety bonds; or

(vii) Liens on cash securing the reimbursement obligations under the Excluded Letters of Credit.

SECTION 6.02. USE OF PROCEEDS. Such Borrower shall not use the proceeds of any Loan for any purpose other than as provided in SECTION 2.02 hereof.

SECTION 6.03. SALE OF ASSETS, CONSOLIDATION, MERGER, ETC. Such Borrower shall not consolidate with or merge into any other Person, or without the prior written consent of the Requisite Lenders, sell, lease, transfer or otherwise dispose of any Collateral, except for (a) sales of inventory in the ordinary course of business, and (b) any sale, lease, transfer or other disposition of assets no longer used or useful in the conduct of the Business for the fair market value thereof not to exceed \$250,000 in the aggregate; PROVIDED, HOWEVER, that if no Event of Default has then occurred or is continuing or would result therefrom, any Borrower, upon provision of thirty days prior written notice to the Agent and upon compliance with SECTION 8.02, may merge with another Borrower.

SECTION 6.04. DIVIDENDS AND DISTRIBUTIONS; SALE OF EQUITY INTERESTS. (a) Such Borrower shall not purchase, redeem or otherwise acquire any interest of such Borrower, declare or make or pay any dividends in any fiscal year of such Borrower on any class or classes of stock, return capital of such Borrower to its shareholders, make any other distribution on or in respect of any shares of any class of capital stock of such Borrower or make other payments to any shareholder of such Borrower (including in the form of compensation, loan, expense reimbursement or management fee); PROVIDED, HOWEVER, that provided no

Event of Default or Default has occurred and is continuing or would result therefrom, (i) such Borrower may make payments of fees or compensation for services which are in the nature of management, corporate overhead or administrative services to the extent permitted by SECTION 6.05 hereof, (ii) provided further, that (A) during the previous four fiscal quarters of the Borrowers, EBITDA equaled at least eighty-five percent (85%) of "Estimated EBITDA" (as defined below) and such Estimated EBITDA is a positive number, (B) during the previous four fiscal quarters of the Borrowers, the Borrowers

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maintained a Fixed Charge Coverage Ratio of at least 1.10 to 1.00, (C) with respect to the next four fiscal quarters of the Borrowers, EBITDA for the Borrowers, as projected in the most recent financial information furnished pursuant to SECTION 5.06(e), is projected to equal at least eighty-five percent (85%) of Estimated EBITDA for such fiscal quarters and such Estimated EBITDA is a positive number, and (D) with respect to the next four fiscal quarters of the Borrowers, the Fixed Charge Coverage Ratio as projected in the most recent financial information submitted to the Agent and the Lenders pursuant to SECTION 5.06(e), is projected to equal at least 1.10 to 1.00, the Borrowers may pay to KMC Holdings dividends in the amount necessary to make (i) scheduled principal and interest payments under the Indentures, and any other amounts due under the Indentures (including Sections 4.14 and 7.07 thereunder), and (ii) required payments of cash dividends due to the holders of KMC Holdings' Series E and F Senior Redeemable, Exchangeable PIK Preferred Stock. Estimated EBITDA shall mean "EBITDA" as calculated in the Milestone Plan.

(b) Such Borrower shall not sell or issue any additional Equity Interests.

SECTION 6.05. MANAGEMENT FEES AND PERMITTED CORPORATE OVERHEAD. Such Borrower shall not pay or enter into any arrangement to pay any fee or compensation, or reimburse expenses of, an Affiliate or any other Person for services which are in the nature of management, corporate overhead or administrative services except to the extent provided for in the Milestone Plan, the Management Agreement or as described on SCHEDULE 6.11 attached hereto.

SECTION 6.06. GUARANTEES; THIRD PARTY SALES AND LEASES. Such Borrower shall not directly or indirectly, (i) assume any obligation or indebtedness of another Person, (ii) make or assume any Guarantee, or (iii) finance any third party sales or leases, other than its obligations under SECTION 2.15.

SECTION 6.07. INVESTMENTS. Such Borrower shall not, directly or indirectly, make any Investments except:

(i) Investments in marketable, direct obligations issued or guaranteed by the United States of America, or of any governmental agency or political subdivision thereof, maturing within 365 days of the date of purchase;

(ii) Investments in certificates of deposit issued by a bank organized under the laws of the United States of America or any state thereof or the District of Columbia, in each case having capital, surplus and undivided profits totaling more than \$500,000,000 and rated at least A by Standard & Poor's Ratings Service and A-2 by Moody's Investors Service, Inc. maturing within 365 days of purchase;

(iii) Investments in certificates of deposit, repurchase agreements, money market or other cash management accounts, bankers acceptances and short term Eurodollar time deposits with financial institutions having a long term deposit rating of at least A+ from Moody's Investors Service, Inc. or Standard & Poor's Ratings Group, respectively;

(iv) Investments in commercial paper rated P1 or A1 by Moody's Investors Service, Inc. or Standard & Poor's Ratings Group respectively; and

(v) Investments not exceeding 365 days in duration in money market funds that invest substantially all of such funds' assets in the Investments described in the preceding clauses (i), (ii), (iii) or (iv).

SECTION 6.08. SUBSIDIARIES; PERMITTED ACQUISITIONS. Such Borrower shall not create or acquire any Subsidiary or acquire all or any significant portion of the assets or Equity Interests of another Person; provided, however, that each Borrower may acquire all the Equity Interests of, or all or any significant portion of the assets of, another Person, if such acquisition meets the following requirements (each such acquisition constituting a "Permitted Acquisition"):

- (1) no Default or Event of Default shall have occurred and be continuing or would result from such transaction or transactions or the incurrence of any Debt by any Borrower or KMC Holdings in connection therewith;
- (2) If such acquisition is being effectuated by means of the acquisition of Equity Interests of any Person (or the formation of a new Subsidiary in order to acquire assets of another Person), such acquired Person (unless merged with and into a Borrower) shall become a Borrower hereunder pursuant to an Accession Agreement and shall deliver such documentation as is reasonably required by the Agent to evidence the enforceability of such Accession Agreement;
- (3) The Collateral Agent shall, immediately upon the consummation of such acquisition, obtain a first priority Lien, for the benefit of the Lenders and as collateral for the payment of the Obligations, in the assets being purchased or acquired by virtue of an acquisition of Equity Interests and the Borrowers shall have complied in all respects with the provisions of SECTION 8.02 with respect to such assets;
- (4) The assets being acquired shall be substantially similar, related or incidental to the Businesses;
- (5) After giving effect to such acquisition, the representations and warranties set forth in ARTICLE III hereof shall be true and correct in all material respects on and as of the date of such acquisition with the same effect as though made on and as of such date and including with respect to any Person that becomes a new Borrower pursuant to paragraph (2) above;
- (6) The purchase is consummated pursuant to a negotiated acquisition agreement on a non-hostile basis;
- (7) The Borrowers shall have submitted a revised Milestone Plan demonstrating (i) PRO FORMA compliance with the applicable Financial Covenants set forth in Article VII after giving effect to such Acquisition, and (ii) that if such acquisition is made after the Required Contribution has been obtained or after August 31, 2000, that the Milestone Plan remains fully funded and that if such acquisition is made before the Required Contribution has been obtained, that the acquisition does not result in the Milestone Plan becoming less fully funded than it was prior to giving effect to such acquisition;

- (8) The Borrowers shall have delivered an appraisal to the Agent and the Collateral Agent reasonably satisfactory to the Collateral Agent, which appraisal establishes that in the aggregate the purchase price of the assets being acquired in such acquisition (measured by appropriate market multiples) does not exceed the fair market value of such assets; and
- (9) The aggregate cash consideration paid by the Borrowers for all

such acquisitions shall not exceed \$60,000,000.

SECTION 6.09. PERMITTED ACTIVITIES. Such Borrower shall not engage in any business or activity other than the operation of its Business in accordance with the Milestone Plan without the prior written consent of the Requisite Lenders.

SECTION 6.10. DISPOSITION OF LICENSES, ETC. Such Borrower shall not sell, assign, transfer or otherwise dispose or attempt to dispose of in any way any Governmental Approval or any other licenses, permits or approvals, the assignment, transfer or disposal of which would result in a Material Adverse Effect, without the prior written consent of the Requisite Lenders.

SECTION 6.11. TRANSACTIONS WITH AFFILIATES. Except for the Management Agreement, the Tax Sharing Agreement, or as set forth on SCHEDULE 6.11, such Borrower shall not directly or indirectly, enter into any transaction, including, without limitation, leases or other agreements for the purchase or use of any goods or services, with any Affiliate, except in the ordinary course of and pursuant to reasonable requirements of such Borrower's business upon fair and reasonable terms no less favorable to such Borrower than it would obtain in a comparable arm's length transaction with an unaffiliated Person.

SECTION 6.12. ERISA. Such Borrower shall not:

(A) engage, or permit any ERISA Affiliate to engage, in any prohibited transaction described in Section 406 of ERISA or 4975 of the IRC for which a statutory or class exemption is not available or a private exemption has not been previously obtained from the United States Department of Labor;

(B) permit to exist any accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the IRC), whether or not waived;

(C) fail, or permit any ERISA Affiliate to fail, to pay timely required contributions or annual installments due with respect to any waived funding deficiency to any Benefit Plan;

(D) terminate, or permit any ERISA Affiliate to terminate, any Benefit Plan which would result in any material liability of such Borrower under Title IV of ERISA;

(E) fail to make any contribution or payment to any Multiemployer Plan which such Borrower or any ERISA Affiliate may be required to make under any agreement relating to such Multiemployer Plan, or any law pertaining thereto;

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(F) amend, or permit any ERISA Affiliate to amend, a Plan resulting in an increase in current liability for the plan year such that such Borrower is required to provide security to such Plan under Section 401(a)(29) of the IRC; or

(G) fail, or permit any ERISA Affiliate to fail, to pay any required installment under Section 412 of the IRC on or before the due date for such installment or other payment.

SECTION 6.13. INDEBTEDNESS. Such Borrower shall not create or suffer to exist any Debt or any other obligations for the deferred purchase price of property or services except:

(i) the Obligations;

(ii) the obligations arising under any Loan Document;

(iii) obligations under leases contemplated in the Milestone Plan and the Schedules to this Agreement;

(iv) obligations under Capitalized Leases, financing leases or loan agreements or similar debt documents with respect to the financing and contemplated purchase of office equipment, vehicles and non-essential

telecommunications equipment, not to exceed an aggregate amount for the Borrowers of \$5,000,000 at any time ("PURCHASE DEBT");

(v) additional unsecured Debt subordinate to the payment of the Obligations on terms and conditions approved by the Agents but in no event to exceed an aggregate amount for the Borrowers of \$1,000,000 in principal amount outstanding at any time;

(vi) performance bonds and bid bonds executed solely in connection with the construction of Systems in the ordinary course of business;

(vii) Qualified Intercompany Loans;

(viii) Debt to the Agent consisting of reimbursement obligations for letters of credit in an aggregate outstanding amount not to exceed \$250,000 at any one time for the account of the Borrower and not issued pursuant to SECTION 2.10 (the "EXCLUDED LETTERS OF CREDIT"); and

(ix) Debt consisting of indebtedness, obligations or other liabilities in respect of any Interest Rate Agreement with the Agent, the Collateral Agent, any Lender or any other party acceptable to, and pursuant to documentation in form and substance acceptable to, the Agent.

SECTION 6.14. PREPAYMENT AND DEBT DOCUMENTS. (a) Such Borrower shall not voluntarily prepay any Debt, except the Obligations in accordance with the terms hereof.

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(b) Such Borrower shall not amend any agreement relating to Debt other than the Obligations in any manner which would increase the amount of principal, interest or fees on such debt, or accelerate any payments of such Debt.

SECTION 6.15. SALE AND LEASEBACK TRANSACTIONS. Such Borrower shall not, directly or indirectly, enter into any arrangement with any Person providing for such Borrower to lease or rent property that any Borrower or KMC Holdings has sold or will sell or otherwise transfer to such Person.

SECTION 6.16. MARGIN REGULATION. Such Borrower shall not use or permit any other Person to use any portion of the proceeds of any credit extended under this Agreement in any manner which might cause the extension of credit made by any Lender or the application of such proceeds to violate the Securities Act of 1933 or Securities Exchange Act of 1934 (each as amended from time to time, and any successor statute) or to violate Regulation T, Regulation U, or Regulation X, or any other regulation of the Federal Reserve Board, in each case as in effect on the date or dates of such extension of credit and such use of proceeds.

SECTION 6.17. MANAGEMENT AND TAX SHARING AGREEMENTS. Such Borrower shall not amend the Management Agreement or the Tax Sharing Agreement in any manner that would have a material adverse effect on the Lenders, the Borrowers or the transactions contemplated hereby.

ARTICLE VII FINANCIAL COVENANTS

Each Borrower covenants and agrees with the Agent and the Lenders that as long as this Agreement shall remain in effect, any Commitment hereunder shall be outstanding or the Obligations hereunder or under any of the Loan Documents shall be unpaid, unless the Requisite Lenders shall have otherwise given prior written consent:

SECTION 7.01. FINANCIAL COVENANTS PRIOR TO ACHIEVING POSITIVE EBITDA. Until the earlier to occur of (i) March 31, 2002 and (ii) the date on which the Borrowers shall have achieved positive EBITDA for all the Borrowers on a combined basis for two consecutive fiscal quarters and a Total Leverage Ratio equal to or less than 9:1 as determined by reference to the financial statements submitted pursuant to SECTION 5.06:

(a) TOTAL DEBT TO CONTRIBUTED CAPITAL. The Borrowers shall not at any

time permit the ratio of the Total Debt to Contributed Capital to exceed 1.00 to 1.00.

(b) MINIMUM REVENUES. As of the last day of each fiscal quarter, the Borrowers shall on a combined basis have revenues at least equal to 85% of the amount projected for such date in the Milestone Plan, which amount is set forth in ITEM 1 on ANNEX B attached hereto.

(c) EBITDA.

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(i) As of the last day of each fiscal quarter occurring on or after the Closing Date and on or prior to June 30, 2001, the Borrowers shall not permit the EBITDA losses for all the Borrowers on a combined basis for the two fiscal quarters then ending to exceed the greater of (A) 115% of such losses projected for each such date in the Milestone Plan, which amount is set forth in ITEM 2 on ANNEX B attached hereto and (B) an amount equal to \$7,500,000 more than the aggregate amount of EBITDA losses projected for each such date in the Milestone Plan, which latter amount is set forth in ITEM 2 on ANNEX B attached hereto.

(ii) As of the last day of each fiscal quarter thereafter, the Borrowers shall not permit EBITDA for all the Borrowers on a combined basis for the two fiscal quarters then ending to be less than the greater of (A) 85% of the amount of EBITDA projected for each such date in the Milestone Plan, which amount is set forth in ITEM 3 on ANNEX B attached hereto and (B) an amount equal to \$7,500,000 less than the aggregate amount of EBITDA projected for each such date in the Milestone Plan, which latter amount is set forth as ITEM 3 on ANNEX B attached hereto.

(d) CAPITAL EXPENDITURES. As of the last day of each fiscal quarter, the Borrowers shall not permit capital expenditures on a combined, cumulative basis beginning on the Closing Date to exceed the amount projected for each such date in the Milestone Plan by more than \$25,000,000, which amount is set forth in ITEM 4 on ANNEX B attached hereto, unless any such excess is funded with cash capital contributions or Qualified Intercompany Loans from KMC Holdings that are not part of the Required Contribution.

(e) MINIMUM ACCESS LINES. As of the last day of each fiscal quarter beginning March 31, 2000, the Borrowers shall have in place at least seventy-five percent (75%) of the Access Lines projected for each such date in the Milestone Plan, which amounts are set forth in ITEM 5 on Annex B attached hereto.

SECTION 7.02. FINANCIAL COVENANTS AFTER ACHIEVING POSITIVE EBITDA. On and after the earlier of (i) March 31, 2002, and (ii) the date on which the Borrowers have achieved positive EBITDA on a combined basis for two consecutive fiscal quarters and a Total Leverage Ratio equal to or less than 9:1 as determined by reference to the financial statements submitted pursuant to SECTION 5.06:

(a) MAXIMUM TOTAL LEVERAGE RATIO. As of the last day of each fiscal quarter, the Borrowers shall not permit the Total Leverage Ratio to be greater than the following:

FISCAL QUARTER ENDING	MAXIMUM TOTAL LEVERAGE RATIO
On or prior to December 31, 2001	9.00 to 1.00
March 31, 2002	8.00 to 1.00
June 30, 2002	6.00 to 1.00
September 30, 2002	4.00 to 1.00
December 31, 2002	4.00 to 1.00

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March 31, 2003	3.00 to 1.00
June 30, 2003	3.00 to 1.00
September 30, 2003	3.00 to 1.00
December 31, 2003	3.00 to 1.00
Last Day of each Fiscal Quarter Thereafter	2.00 to 1.00

(b) MINIMUM DEBT SERVICE COVERAGE RATIO. As of the last day of each fiscal quarter, the Borrowers shall not permit the ratio of (1) EBITDA for the Borrowers on a combined basis for the most recently ended six month period, to (2) Interest Expense for the most recently ended six month period plus Principal Payments required during the most recently ended six month period to be less than the following:

FISCAL QUARTER ENDING	MINIMUM DEBT SERVICE COVERAGE RATIO
On or prior to December 31, 2001	1.15 to 1.00
March 31, 2002 - December 31, 2003	1.50 to 1.00
Last Day of each Fiscal Quarter Thereafter	2.00 to 1.00

(c) MINIMUM FIXED CHARGE COVERAGE RATIO. As of the last day of any fiscal quarter, the Borrowers shall not permit the ratio of (1) the product of two times the EBITDA for the Borrowers on a combined basis for the most recently ended six month period to (2) Fixed Charges for the Borrowers (such ratio being referred to as the "FIXED CHARGE COVERAGE RATIO") to be less than the following:

FISCAL QUARTER ENDING	MINIMUM FIXED CHARGE COVERAGE RATIO
January 1, 2002 - December 31, 2002	0.50 to 1.00
March 31, 2003 - June 30, 2004	0.75 to 1.00
September 30, 2004 - December 31, 2004	1.00 to 1.00
Last Day of each Fiscal Quarter Thereafter	1.10 to 1.00

(d) MAXIMUM CONSOLIDATED LEVERAGE RATIO. As of the last day of any fiscal quarter, the Borrowers shall not permit the ratio of (1) Consolidated Debt to (2) the product of two times the sum of EBITDA for KMC Holdings and its Subsidiaries (excluding its Excluded Subsidiaries) on a consolidated basis for the most recently ended six month period to be greater than the following:

FISCAL QUARTER ENDING	MAXIMUM TOTAL LEVERAGE RATIO
On or Prior to March 31, 2002	20.00 to 1.00
June 30, 2002	15.00 to 1.00
September 30, 2002	10.00 to 1.00
December 31, 2002	10.00 to 1.00
March 31, 2003	8.00 to 1.00
June 30, 2003	8.00 to 1.00
September 30, 2003	8.00 to 1.00
December 31, 2003	8.00 to 1.00
Last Day of Each Fiscal Quarter Thereafter	6.00 to 1.00